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AUTHOR Silverman, Fred
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ABSTRACT

In this speech the president of the National Broadcasting Company offers some views on the impact of new and developing home video services and technologies such as cassette recorders and cable and pay television. He also outlines his views on the competition superstations and "occasional networks" provide the commercial networks and concludes with his opinions on the vitality of commercial television during the 1980s. (TJ)

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Remarks by Fred Silverman
President, NBC
California Broadcasters Association
Monterey, Calif.
July 24, 1979

It's a great pleasure for me to be a part of your meeting here in Monterey. All of us in this room are broadcasters, and I want to talk to you today about the most important subject in broadcasting – our future.

There's been a great deal written lately about various new technologies, "exciting" services that some people think will make us obsolete. I've even read stories that made cable and pay and cassette recorders and the rest sound so good that it was almost easy to forget about poor old commercial broadcasting.

Well, let me tell you at the outset that I am absolutely and totally convinced that any of these other services would gladly trade their future for our present. The business that you are in, that we are in, is now – and will continue to be – America's first choice. As Damon Runyon once put it: "The race is not always to the swift nor the battle to the strong, but that's the way to bet."

And NBC is putting its money where its mouth is. We are betting on the future of our business. Whatever our competitors may do, we have no intention of diverting our resources into the production of theatrical motion pictures. Whatever our competitors may do, we are not going to dissipate our

creative energies by producing software for other media or other technologies. We are broadcasters and we are going to remain broadcasters.

Are we being naive? Is commercial broadcasting really going the way of the buggy whip business? I'm glad you asked.

NBC, through its Corporate Planning Department, has recently completed a study that details the outlook for home video over the next 10 years. We think it's a realistic and objective look at the decade ahead, and I'd like to share some of it with you now.

First of all, the study tells us that in 1988, commercial television's share of viewing will remain high – close to 90 percent. That suggests that the impact of any one of the alternative program sources will not decrease our audience, but will *increase* the number of hours each household spends watching all televised services.

That finding is key to our future and the future of the new technologies. These new services will have the overall effect of *expanding* the home entertainment and information market, and making it more important. Many of the new services will themselves develop into sound businesses, and will provide new challenges to

our creativity and resourcefulness. But they will not make our kind of free, over-the-air television less important. Commercial television has had more than 25 years of unprecedented growth and success – and we are nowhere near the end of it.

Our study indicates that, by 1988, there will be 89 million television homes, about 15 million more than now. Each of them will be a potential customer for us, for you – and for the new technologies. Let's look at what kind of access each service will have to these 89 million homes.

By 1988, subscription television should have reached 4 percent penetration. Cable is estimated at 30 percent penetration, with pay cable, as part of that total, at 12 percent. Video cassette recorders are forecast to be in 15 percent of United States homes, videodisc players in 20 percent, home computers in 10 percent and video games in 20 percent.

By comparison, independent television stations are expected to increase their penetration to 65 or 70 percent, and the networks and their affiliates will maintain 100 percent penetration of those 89 million homes.

And in addition to the growth in homes, the proportion of multi-set

homes – already at 50 percent – will continue to increase over the next decade. So the total viewing "pie" is getting bigger.

We expect that in 1988, homes with the capability to view any of the new services will spend no more than four to five hours a week doing so. These same homes will watch 47 hours of commercial television – network and local.

That's why I'm optimistic and you should be, too.

As far as advertising support is concerned, our forecasts indicate a bright future. We project that the ratio of advertising to Gross National Product will increase slightly in the decade ahead, and that television will receive an increasing share of total advertising expenditures. Last year television's share was 21 percent. We expect this to continue to climb, with local television advertising showing the best gains.

With the other video services, part of the present attraction is the absence of advertising, and customers will certainly object if advertising is put in later. That could be a factor in other services remaining non-commercial, or close to it. In addition, as I've just detailed, we don't expect alternative services to offer enough audience on a regular basis to

attract national advertisers away from network television and national spot.

Nor do our corporate planners anticipate that the new delivery systems will not, for the most part, compete with networks for original, mass-appeal programming. Except for pay, they will primarily be aiming at special-interest audiences with lower-priced programming. As for pay television, it may make some inroads on sports events, but we do not see it becoming strong in developing original entertainment programming or news. That kind of financial risk-taking – the ability to provide a national programming service – is simply not anything that pay TV or the other technologies will be able to match. The three commercial networks, by way of comparison, spent on programming – in 1978 alone – almost two billion dollars.

For several reasons, we do not expect that superstations will represent significant competition in the future. First, producers are now asking these stations to pay more for their programming, and the superstation program cost advantage may soon be reduced. Also, superstations have not been very successful in selling national advertising. With higher program costs in prospect, it remains to be seen whether they will be able to attract added revenues.

There is some advertiser interest in "occasional networks," brought together for the broadcast of a particular program. They are being formed only a few times a year, and there is not much room for improvement in their coverage. Over the long term, because of the program development risks involved, we do not expect any significant increase in occasional networks, even with increased use of satellites.

Future changes may come faster than we believe they will. With technology changing so rapidly, new developments like fiber optics could speed cable to a higher penetration than we expect. And future Federal regulatory actions – favorable or unfavorable – are unpredictable. However, unless the current system were to be radically revised – and we think that is very unlikely – the networks and their affiliated stations will remain the strongest force in television entertainment, and in providing a national news service.

A challenge could develop from the process of consolidation now under way in the cable business. If several large multi-system operators emerge, there would be more programming resources available, particularly on national pay channels.

We welcome the competition,

if it develops. How serious the challenge becomes will depend on how well we conduct our *own* business. How we and you do in the long run is in our hands – no one else's – and we are planning to meet the challenge.

Our mission for the future is clear. You and we must concentrate on making a better product. That product is programming, news and entertainment programming, and I can promise you that NBC, in the years ahead, is going to give 100 percent of its attention to making it better. Every waking hour is going to be devoted to improving our radio and television operations. If we can do that – and we can – we have nothing to fear from the new technologies.

We – and all of you – are part of a broadcasting structure in this country that serves every American through resources no other service can approach.

No other service has hundreds of affiliated stations spread across the nation, each geared to meet local programming needs.

No other service has a national audience or the potential to bring a shared experience to a hundred million Americans.

No other service has the financial resources to provide a

round-the-clock schedule of high quality, original programming.

And, most certainly, no other service can begin to match the network news organizations. which commit more than 300 million dollars each year to bring world-wide coverage into every American home.

Our challenge is to take this incredible service and make it better. At NBC, we think the most important long-term changes we can make will be in the area of news.

We have something unique, something none of the new technologies will *ever* have – a professional staff of 1,000 journalists with the ability to transmit world events into every living room in the country.

We have this, moreover, at a time when our world has never been more complicated or more difficult to understand. We intend to search for ways to make television more responsive to the public's need for information, more helpful in sorting out the complications of their lives.

It is the most exciting challenge we face and the one, I believe, that is going to change the face of television.

At the same time, we must upgrade our entertainment programming by seeking opportunities to innovate, to be daring. Many of the most popular forms are going to continue well into the next decade, but we are also on the lookout for something more. We think reality-based programs have superb potential and I'm proud of NBC's pioneering efforts. We didn't make it with "Lifeline," but I think we will with "Real People."

In any case, we are going to continue to look for programs that are different from what anyone has done before.

That will help us meet another challenge – attracting and keeping the best people in our business. Top people – whether they're executives, creative talent or stars – want to work where there is an appreciation of excellence and a chance to break new ground. We can get them working in broadcasting and keep them there only if we are serious about refreshing the medium and seeking to innovate. And we are.

At NBC, we feel good about the future – for our company and for the business of broadcasting. In the competitive arena of the three networks, we have set ourselves on a clear course of action that will build on the traditions of this

company's distinguished past. We will have more news, we will strive to innovate, we will develop a cultural program from NBC's old Toscanini studio that would make the maestro proud. We are going to do everything we can to enrich our medium.

And we are confident that as we do, we will attract the best people – the people who will want to work where excellence is valued. In a business where our product is so intangible – fleeting images across a screen or the sound of a radio – the key to success is finding and keeping those people.

We're going to do that, and I know you will, too. The personalized service provided to communities across this country by dedicated local broadcasters is unparalleled anywhere else in the world. It is the heart of our national programming service.

Broadcasters who strive to be better are going to succeed. Nothing is more central to our ultimate success than that commitment to excellence. The years ahead provide us with new opportunities to strengthen what is already the most important communications tool ever developed – broadcasting in America.

I look forward to those years. And so should you. Thank you.